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Report Highlights:

Seasonal conditions across most of Australia, particularly Queensland and the Northern Territory have deteriorated in the last 12 months. As a result cattle slaughter numbers have increased significantly as producers bring forward turnoff. Total slaughter for 2013 is expected to reach 8.6 million head with total beef production of 2.3 million tons. This will reduce the total herd to 29.9 million head. Despite the high Australian dollar strong demand from the U.S. and China has supported strong beef exports with a total of over 1.5 million tons CWT expected to be shipped in 2013.

The effect of these seasonal conditions is expected to continue into 2014 with total slaughter of around 8.4 million head and beef production of 2.2 million tons forecast.

Pig production in Australia is relatively stable with forecast total production of 345,000 and 350,000 tons in 2013 and 2014 respectively.

Commodities:

Animal Numbers, Cattle

Meat, Beef and Veal

Animal Numbers, Swine
Meat, Swine

Seasonal conditions

The 2012-13 northern Australian¹ wet season was considered a failure across most of Queensland and the Northern Territory. As shown in Figure 1, rainfall for the period October 1, 2012 to April 30, 2013 was well below average for two-thirds of the entire Australian continent. As a result 50 percent of Queensland is now officially drought-declared which gives livestock producers access to government assistance. The Northern Territory does not declare drought in the same way however the general consensus is that it has been a very poor season across the Territory.

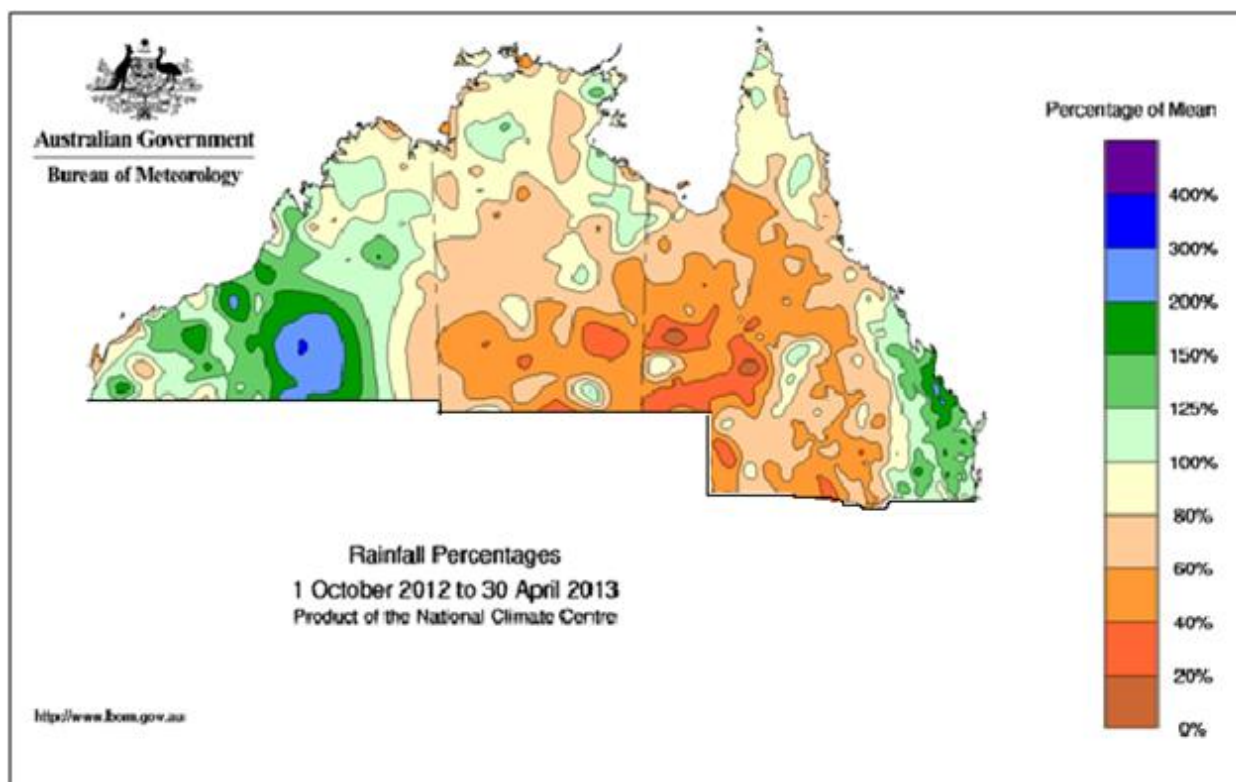


Figure 1 2012-13 Northern Australia wet season rainfall

Rainfall across southern Australia was also generally below average over the 2012-13 summer; however, the southern region is more reliant on winter rainfall which has been generally at, or slightly above average. The exception is Western Australia which received higher than average summer rainfall but so far has received lower than average winter rainfall.

These seasonal conditions have had a direct impact on cattle numbers through a reduction in available feed and water. Indirectly, these conditions have also affected the grain-fed cattle and pig industries through higher grain prices and increased demand for grain feeding.

¹ The Australian cattle industry is generally divided into two broad production regions. The Northern region encompasses Queensland, the Northern Territory and the northern part of Western Australia. The Southern region includes New South Wales, South Australia, Victoria, Tasmania and the remainder of Western Australia.

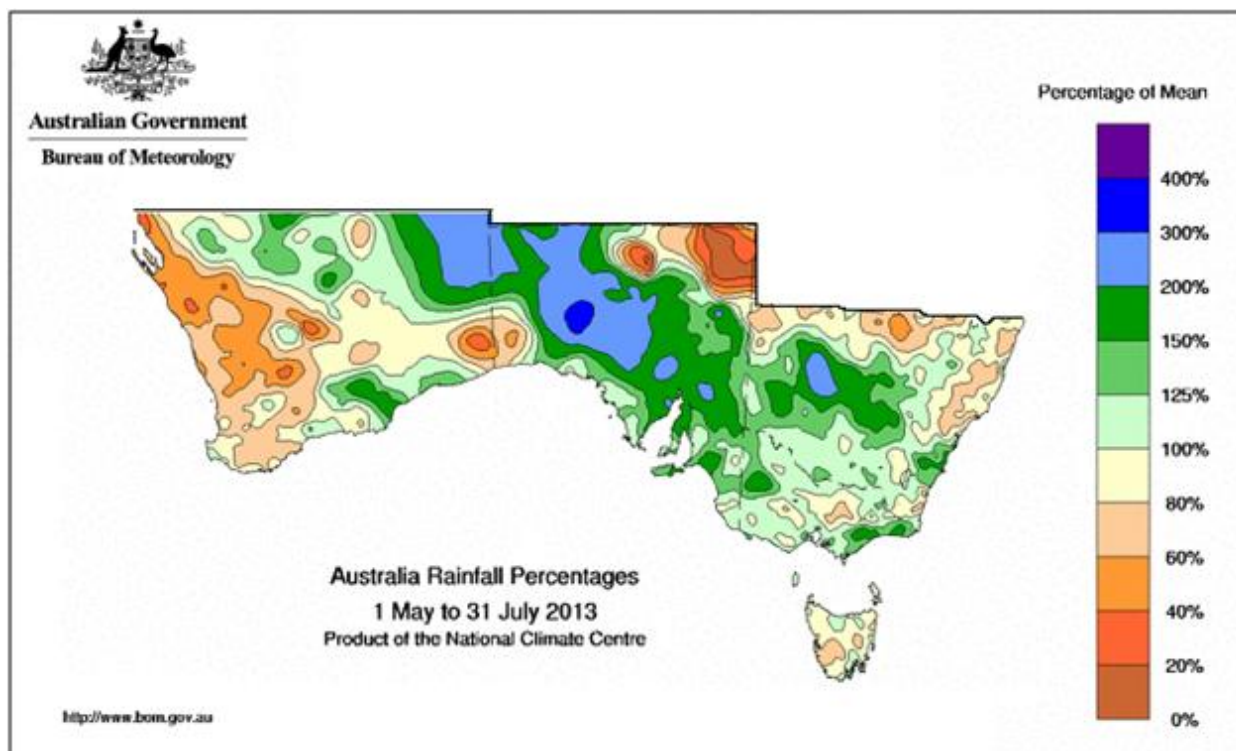


Figure 2 Southern Australia winter rainfall

Cattle

Cattle numbers

The Australian cattle herd is expected to finish 2013 at approximately 29.9 million head, three percent lower than previously forecast. Total herd numbers are expected to decline further in 2014 to 28.9 million head as the long term effects of dry conditions impact on calf production rates and slaughter numbers.

Prior to the 2012-13 wet season Northern Australia had received three good wet seasons in a row which had allowed cattle herd numbers to increase significantly. With the failure of the 2012-13 wet season many producers were forced to bring forward the turnoff of younger cattle and also reduce breeder numbers. The resulting influx of cattle reduced cattle prices dramatically, particularly during the period March to May 2013 when the northern and southern peak turnoff periods overlap. In May 2013, in response to the lack of pasture feed, the Queensland government provided emergency permits to allow cattle grazing in selected national parks. The national parks in question were previously cattle properties and had only recently been acquired by the government as national parks.

The dry conditions have affected such a large area of northern Australia that there is limited pasture available for agistment and many banks are refusing to extend credit to allow producers to 'buy grass' by purchasing additional land. As a result a number of producers, including Australia's largest cattle

producer, the Australian Agriculture Company (AACo) have resorted to using public ‘stock routes’² to find grass and walk cattle closer to markets.

The effect of these seasonal conditions and increased female slaughter during 2013 will be reduced calf production in 2013. This effect will be continued in 2014 as the re-breed rate for breeders who calve in poor body condition in late 2013 will be reduced.

A total of 872,992 cattle were on feed in the June 2013 quarter, an increase of nine percent from the March quarter and over 10 percent higher than the June quarter in 2012. The increase in numbers reflects the increase in availability of feeder cattle and falling cattle prices. These numbers represent capacity utilization of 73 percent nationally with Queensland capacity at 83 percent. The increased numbers of cattle on feed have increased pressure on domestic grain stocks with prices rising and some concern amongst industry that there may be a grain shortage before the 2013-14 grain harvest becomes available.

Slaughter

Official figures indicate that total cattle slaughter numbers for the period January to June 2013 were over 4.3 million head, 12 percent higher than the same period in 2012. The processing industry has indicated that production capacity is fully allocated until at least the end of September and with feedlots also at full capacity it is likely that these production levels will continue. While significant early spring rainfall could change this trend with producers retaining greater numbers of cattle, at this stage it is expected that total slaughter will be approximately 8.6 million head with total beef production for 2013 will be close to 2.3 MMT, the highest level since 2006.

In 2014 cattle slaughter numbers will depend largely on the outcome of the 2013-14 northern wet season. Current forecasts are for a return to a reasonable season which would see producers retain cattle and attempt to restock thus leading to lower slaughter numbers. Alternatively, a continuation of dry conditions would lead to further de-stocking and higher slaughter numbers but with relatively lower carcass weights. On balance, it is expected that slaughter numbers for 2014 are likely to be somewhat less than 2013, at around 8.4 million head and total beef production of 2.2 MMT.

Consumption

Australian consumer confidence is still sitting at moderate levels with lower interest rates offset by slightly higher unemployment figures. Ongoing political uncertainty has also harmed consumer confidence. Thus, even though retail beef prices have fallen slightly as a result of increased slaughter rates, beef consumption has remained at or marginally below previous levels. A marketing campaign for lamb by Meat and Livestock Australia around Australian Day in January did result in a slight spillover to increased beef consumption, particularly as lamb prices have since increased but this was only minor. It is likely that the recent trend for ‘nose to tail’ eating and promotion of lean beef as a healthy protein source is expected to support long term beef consumption but not increase per capita consumption significantly.

² In Australia ‘stock routes’, formally known as ‘Travelling Stock Routes’ are areas (often along roadways) through which livestock may be moved from one location to another. Stock must travel a minimum distance each day to avoid over grazing in any particular area. The stockperson overseeing this kind of operation is known as a ‘drover’.

Trade

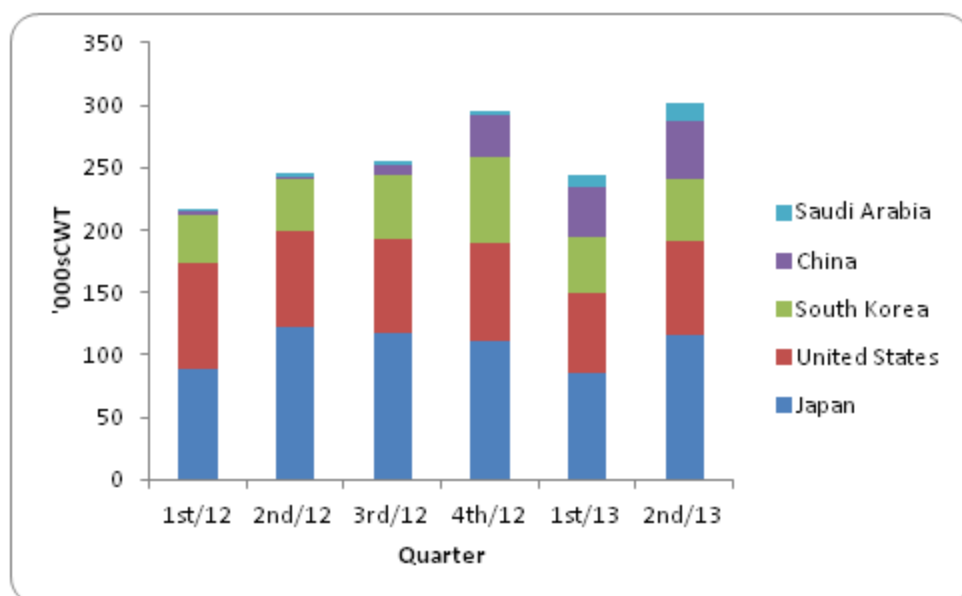
Total live cattle exports for the first half of 2013 were almost 350,000 head, four percent higher than for the same period in 2012. Confidence in the live export trade is improving with several new markets opening and two new live export ships with a total capacity of approximately 8,000 head being delivered to Australian exporters in August 2013. In May 2013 the agriculture ministers from Queensland and the Northern Territory visited Indonesia to discuss increasing the live cattle trade between Australian and Indonesia. This was followed in early July by a visit from the Australian Prime Minister and almost immediately the Indonesian government announced an additional import quota of 25,000 head for the third quarter of 2013 and there are reports that a further 60,000 permits have been granted for the last quarter of 2013.

On August 23rd and 24th 2013 an Indonesian-Australia live export forum was held in Brisbane with representatives from the Australian, Queensland, and Indonesian governments attending along with a number of industry representatives. Strategies for improving trade relations and efficiencies were discussed and the Indonesian government admitted that the recent beef price rises were due to the limitation of beef imports. Indonesia indicated that import permits for 2014 would be larger but did not indicate by how much. On August 28th, 2013 the Indonesian Trade Ministry announced that the structure for import permits would change in 2014 with imports (both live cattle and boxed beef) only being allowed once domestic beef prices reach prices 15 percent high than a parity price set by the government. This could result in significant uncertainty for producers and exporters. The rapid changes to import allowances have already caused some problems in Queensland where cattle ships have been unable to get port access on short notice.

Despite these problems, with the confirmed additional 25,000 head to Indonesia and recent shipments of approximately 5,000 head to Vietnam, total exports for 2013 are expected to reach 620,000 head, nearly seven percent higher than previously forecast.

Total beef exports for the first half of 2013 were 725,000 CWT, also 12 percent higher than the same period in 2012. Japan remains the largest market for Australian beef with 28 percent of total beef exports. However demand for Australian beef in China has increased rapidly with exports to China increasing from 49,000 CWT in 2012 to over 87,000 CWT in the first half of 2013 alone. The key driver behind this sharp increase is that both pork and poultry have recently been affected by food safety issues which have driven consumers to choose an alternative protein source. Beef production is limited in China therefore demand for imports from Australia as well as Uruguay, New Zealand, Canada and Argentina has risen rapidly. Australia has also changed the way that beef is exported to China, sending larger cuts which are further processed in China. This has allowed the Chinese to cut the beef to their preferences and reduce waste.

Demand for Australian beef is expected to continue for the remainder of 2013 with total Australian beef exports expected to reach a record 1.5 million CWT. In the longer term demand for beef in China will depend on how quickly the food safety issues with pork and poultry are resolved and the extent to which consumers will have acquired a taste for beef during this time.



Production, supply and demand estimates

Cattle numbers

Animal Numbers, Cattle Australia	2012		2013		2014	
	Market Year Begin: Jan 2012		Market Year Begin: Jan 2013		Market Year Begin: Jan 2014	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Total Cattle Beg. Stks	28,506	28,506	29,879	29,879		29,925
Dairy Cows Beg. Stocks	1,630	1,630	1,655	1,655		1,640
Beef Cows Beg. Stocks	13,865	13,204	14,000	14,000		13,000
Production (Calf Crop)	10,000	10,000	9,825	9,300		8,000
Total Imports	0	0	0	0		0
Total Supply	38,506	38,506	39,704	39,179		37,925
Total Exports	620	620	580	620		620
Cow Slaughter	3,207	3,207	3,315	3,440		3,360
Calf Slaughter	625	625	695	695		670
Other Slaughter	4,146	4,145	4,290	4,465		4,370
Total Slaughter	7,978	7,977	8,300	8,600		8,400
Loss	29	30	34	34		30
Ending Inventories	29,879	29,879	30,790	29,925		28,875
Total Distribution	38,506	38,506	39,704	39,179		37,925
1000 HEAD, PERCENT						

Beef production

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Swine and Pork

Pig numbers

The number of breeding sows in the Australian pig herd is expected to remain stable in 2014 at 240,000 head. Pig production is expected to increase marginally from 4.6 million in 2013 to 4.7 million piglets in 2014.

According to industry sources the Australian swine industry has reached a point of balance between supply and demand. Industry rationalization over the last five to ten years has forced most of the less efficient operators out of the industry. Most of those that remain have consistent long term contracts with major retailers or exporters so have balanced their sow numbers to meet these demands. Grain prices, which account for 60 percent of input costs in pork production, have remained relatively high during 2013 due to the high demand for exports and competition from the cattle feedlot sector. However, industry reports that the majority of pork producers are returning reasonable profits due to good management.

The Australian industry has committed to a voluntary phase-out of gestation crates by 2017. Research suggests that producers can expect a slight reduction in sow productivity immediately following the removal of gestation crates. This reduction is expected to be temporary as producers adjust feeding and husbandry practices in the altered system. As the phase-out is voluntary it will occur gradually across the industry thus is not expected to create any significant impact on overall pig production.

Slaughter

Total pig slaughter for 2014 is expected to be marginally higher than 2013 at 4.7 million head for total production of 350,000 tons, up 1.5 percent from 2013.

Consumption

Pork consumption in Australia is relatively stable from year to year although consumption generally increases during December due to the popularity of Christmas ham. Historically pork consumption has then fallen in the first quarter of the year however in 2013 a focused marketing campaign by Australian pork prevented this from occurring.

Trade

Total exports of pork products from Australia are expected to increase marginally in 2014 to 35,000 tons. Exports in the first half of 2013 were just over 13,000 tons with total exports for the year expected to reach 33,000 tons.

Key export destinations for Australian pork remain Singapore (34%), New Zealand (17%) Papua New Guinea (13%) and the Philippines (12%).

Pork imports in 2014 are also expected to increase slightly (2%) to 210,000 tons. Imports for the first half of 2013 were 77,853 tons with the total for 2013 expected to reach over 155,000 tons. The U.S. remains the largest importer of pork products to Australia, importing over 30,000 tons in the first half of 2013, followed by Denmark with 24,000 tons. This trend is expected to continue in 2014 however there is little chance that the Australian market will be opened to fresh, chilled or bone-in pork product in the near future.

Production, supply and demand estimates

Swine numbers

Animal Numbers, Swine Australia	2012		2013		2014	
	Market Year Begin: Jan 2012		Market Year Begin: Jan 2013		Market Year Begin: Jan 2014	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Total Beginning Stocks	2,285	2,285	2,159	2,343		2,270
Sow Beginning Stocks	239	239	235	240		240
Production (Pig Crop)	4,602	4,786	4,600	4,600		4,700
Total Imports	0	0	0	0		0
Total Supply	6,887	7,071	6,759	6,943		6,970
Total Exports	0	0	0	0		0
Sow Slaughter	0	0	0	0		0
Other Slaughter	4,728	4,728	4,650	4,673		4,700
Total Slaughter	4,728	4,728	4,650	4,673		4,700
Loss	0	0	0	0		0
Ending Inventories	2,159	2,343	2,109	2,270		2,270
Total Distribution	6,887	7,071	6,759	6,943		6,970

Pig meat production

Meat, Swine Australia	2012		2013		2014	
	Market Year Begin: Jan 2012		Market Year Begin: Jan 2013		Market Year Begin: Jan 2014	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Slaughter (Reference)	4,728	4,728	4,650	4,650		4,700
Beginning Stocks	24	24	20	23		20
Production	352	352	345	345		350
Total Imports	194	194	210	205		210
Total Supply	570	570	575	573		580
Total Exports	36	27	35	33		35
Human Dom. Consumption	514	520	520	520		520
Other Use, Losses	0	0	0	0		0
Total Dom. Consumption	514	520	520	520		520
Ending Stocks	20	23	20	20		25
Total Distribution	570	570	575	573		580

1000 HEAD, 1000 MT CWE, PERCENT, PEOPLE, KG

Goats

The Australian goat industry has undergone significant growth in recent years. Domestic goat numbers have declined from 728,000 head in 2009 to less than 520,000 head in 2012 however there are large numbers of wild goats in the extensive rangeland areas. Improved fencing and sophisticated livestock monitoring systems have improved the ability of landowners to trap and harvest these wild goats with the result that Australia is now the largest exporter of goat meat in the world. Total goat meat exports in 2012 were over 31,000 tons, an increase of nearly 13 percent from 2011. The major destination for Australian goat meat in 2012 was the U.S. with over 50 percent of total exports, followed by Taiwan with 12 percent.

Industry estimates of slaughter numbers of 118,000 head for the first three weeks of August 2013 indicate an increase of 30 percent compared with the same period in 2012. This increase is largely driven by the ongoing dry conditions across large areas of western New South Wales and Queensland which have forced wild goats into smaller areas near man-made water. During dry conditions there is also greater incentive for wild goats to be harvested as they are competing with domestic livestock for feed and water.

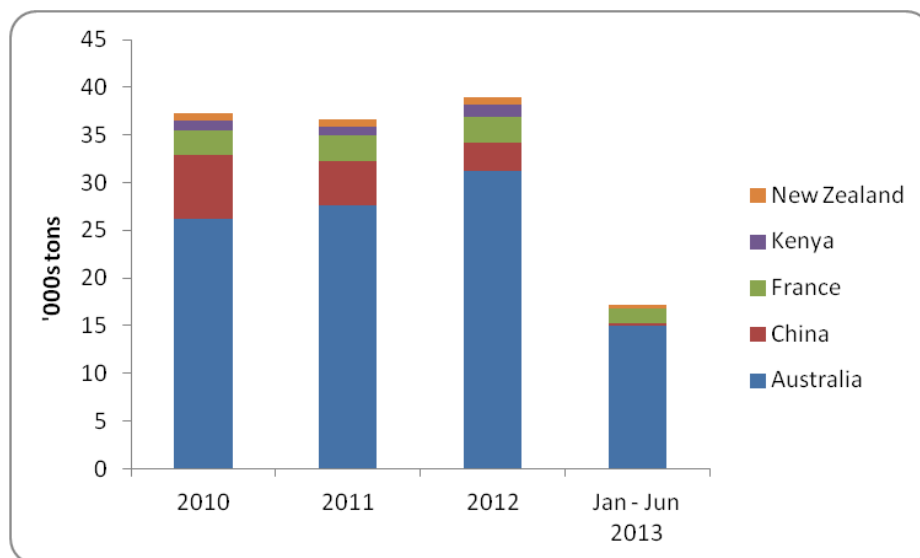


Figure 4 World exports of goat meat by country (represents over 90% of total exports)